

ISLAND COUNTY, WASHINGTON
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. County Officials Should Improve Accounting Controls For Federal Grant Transactions

The county's grant accounting system does not allow us to determine whether all of the grants and grant transactions have been included in the Schedule of Federal Financial Assistance. Accounting for federal financial assistance is performed at the individual departments which administer the various federally assisted programs. The departmental accountants have varying levels of understanding and expertise in grant accounting.

The county auditor's office is responsible for assembling the Schedule of Federal Financial Assistance and performing limited review of the departmental worksheets. Decentralization and inadequate review resulted in the following errors in the preliminary Schedule of Federal Financial Assistance:

- a. The 1992 Schedule of Federal Financial Assistance is not in the prescribed format as required by *Budgeting, Accounting and Reporting System* (BARS) manual.
- b. Not all 1992 beginning balances agreed with the 1991 ending balances. Three 1991 grants with ending balances totaling \$25,392 were not carried forward to the 1992 schedule.
- c. The Schedule of Federal Financial Assistance was not reconciled to the revenue detail. We noted grant revenues shown on the county's revenue report that were not included on the schedule. Grants totaling \$129,254 were omitted from the schedule.
- d. There were numerous federal grant miscodings on both the schedule and the revenue report.
- e. Grant accountability worksheets are not adequately supported. This required additional time to track federal grants. We noted two worksheets/grants that were not included on the federal schedule totaling \$19,821.
- f. The Schedule of Federal Financial Assistance reported \$91,598 for FEMA, which was a duplication of 1991 assistance. This error occurred because the department improperly prepared the schedule on the cash basis of accounting instead of modified accrual employed in prior years.

The United States Office of Management and Budget (OMB) Circular A-128 requires the county to record the following:

. . . total expenditures for each federal assistance programs should be identified as in the Catalog of Federal Domestic Assistance.

The OMB's "Common Rule", Section .20, *Standards for Financial Management Systems*, Paragraph (2) Accounting records, states:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Without better control over accounting for grant expenditures, granting agencies cannot be assured the use of their program dollars is accurately reported by the county. The county's failure to centralize the grant accounting and reporting into the financial system and to provide an accurate Schedule of Federal Financial Assistance increases audit time and costs. The final schedule included in this report has been corrected for the errors we noted.

Similar conditions regarding the county's grant accounting were reported in our 1991 Report No. 54712 and our 1990 Report No. 53826.

We again recommend that county officials:

- a. Prepare the Schedule of Federal Financial Assistance in accordance with the BARS manual.
- b. Centralize the accounting for county grant programs. The person preparing the schedule should have a folder on each grant the county receives. The folder should contain the grant award and any related amendments to the award and all requests for reimbursements accompanying the related county vouchers.
- c. Reconcile the schedule with the county's general ledger system.

2. County Officials Should Improve Accounting Controls For The General Fixed Assets

Our review of the county's fixed assets accounting revealed the following weaknesses:

- a. The asset listing for land is not complete. There are many donated parcels on the listing which are valued at \$1.00. The listing of land does not include acquisition dates or unique asset numbers for each parcel. The listing of land includes right-of-ways.
- b. There is no historical cost data for the buildings or other improvements in the general fixed asset listing.
- c. There are no listings of additions and deletions for land, buildings, or other improvements.

As a result of the above conditions, we were unable to apply audit procedures to substantiate the fair presentation of the general fixed asset balances reported in the county's financial statements.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by county officials. County officials also are having a difficult time researching older data and obtaining the required information.

Similar conditions regarding the county's fixed asset accounting system were reported in our 1991 Report No. 54712.

We again recommend that the county officials:

- a. Establish and maintain a comprehensive fixed asset detail ledger for land, buildings, and other improvements. The listing should document each assets acquisition information including date, cost and reference to source document, and disposition information.
- b. Value all donated parcels of land at the fair market value at the time of acquisition. The right-of-ways should be excluded from the land asset listing since they are considered infrastructure.
- c. Maintain a detailed listing of all additions and deletions made to land, buildings, and other improvements.

3. The County Sheriff's Department Should Establish Adequate Internal Accounting Controls Over Cash

During our audit of the sheriff's department, we noted weaknesses over that department's control of cash receipts and cash handling.

We noted that the following types of receipts were being commingled in one cash drawer in the dispatch office.

- Inmate Personal Funds

These funds represent money in the possession of inmates when they are brought into custody. This money normally stays in the dispatch office where it is available to the inmate during his confinement.

- Electronic Surveillance Deposits

These deposits are eventually returned to the prisoner at the end of custody. These deposits could be in the cash register drawer for over a year.

- Electronic Surveillance Fees

These fees are collected weekly from the inmates and deposited periodically to the treasurer's office.

- Bail Deposits

The deposits are turned over to the county clerk.

- Work Release Fees

These fees are paid by the inmates so that they may participate in a work release program. These fees are deposited periodically with the treasurer.

- Housing Fees

These are fees for inmates held on behalf of other jurisdiction. These fees are deposited periodically with the treasurer.

This money is accessible to approximately 11 dispatch officers. Cash drawer receipts are not reconciled to money in the drawer at the end of every shift.

Inadequate internal controls over cash receipting, recordkeeping, and reconciling procedures have made it difficult to determine if cash receipts, commissary, and reimbursable transactions were accounted for appropriately.

The county does not have established policies and procedures over cash receipts. This decreases accountability over the cash receipting system. In addition, it could allow errors and/or irregularities to occur without being detected in a timely manner.

We recommend the following:

- a. The sheriff's department should establish and follow written policies and procedures to govern cash receipting.

- b. All cash transactions should be evidenced by a receipt that is completed with all necessary information, such as amount, mode of payment, purpose of payment, date, officer receiving the money, time period that the payment covers, etc.
- c. Cash balances should be reconciled to the receipts at the end of each shift. Deposits should be prepared and locked in a bank bag for transmittal to the county treasurer. Locked bags should be placed in a safe in the dispatcher's office until they can be transmitted to the treasurer. Daily receipts will include electronic surveillance fees and deposits, inmate funds, work release fees, and housing fees. Deposits should be made on a daily basis.
- d. Deposits with the county treasurer should be supported with complete transmittals that account for all funds received. Receipting records should be maintained to support the deposit. The numerical range of receipt numbers should be indicated on the transmittal.
- e. Bail deposits should be deposited on a daily basis with the court administrator.
- f. Inmate funds should be counted in the presence of the inmate and two officers. A receipt should be prepared evidencing the transaction and should be signed by each person involved. An imprest fund should be established to accommodate the return of inmates funds and facilitate purchases from the commissary.
- g. An imprest fund should be established to properly account for reimbursable items. Reimbursables are hygiene items that cannot be refused to inmates even if they do not have the funds available in their accounts. If an inmate cannot afford a reimbursable item, an accounts receivable should be established.

4. The County Should Improve Internal Controls Over Cash Receipts At All Departments

During our review of cash receipting procedures at various county departments, we noted the following:

- a. Checks received for payments at the Camano Annex are not always endorsed immediately upon receipt.
- b. Treasurer's transmittals supporting deposits of cash receipts from the various departments did not indicate mode of payment. The departments often did not include the receipt number range on the treasurer's transmittals. This occurred at the public defender, county auditor, and county clerk's offices.
- c. The coroner's office does not issue receipts for cash received.
- d. The public defender's office uses "Rediform" receipts (a type of unofficial cash receipt form). While these receipts are prenumbered, they provide no control over the cash receipting process because duplicate numbering sequences can easily be obtained at many retail stores.
- e. Deposits of cash receipts were not made in a timely manner at the Camano Annex and sheriff's department.
- f. Mode of payment on receipts (or cash register tapes) could not be reconciled to the deposit for the Solid Waste Transfer Stations, the public defender's office, sheriff's department, and the county auditor's office.
- g. The county does not have established policies or procedures to ensure accountability over cash receipts at all department levels.

This decreases accountability over the cash receipting system. In addition, it could allow room for errors and/or irregularities to occur without being detected in timely manner.

We recommend that county officials work to improve accounting and administrative controls over cash receipts. We further recommend that a policy governing cash procedures be adopted and enforced at all county levels.

5. County Officials Should Limit Real Property Acquisitions To Those With A Public Purpose

During 1992 county officials purchased land for the purpose of obtaining right-of-way for a county road improvement project. Total acquisition costs for the land amounted to \$381,360. The purchase actually consisted of two separate parcels. One parcel, consisting of approximately .15 acres, included the necessary right-of-way. This parcel was purchased for \$31,360. A second parcel, consisting of 3.9 acres, lies adjacent to the first and was purchased from the same property owner for \$350,000.

Both parcels were purchased with money taken from the county Road Fund.

County officials have indicated that it was necessary to purchase the larger piece of property to avoid condemnation procedures in the acquisition of the necessary right-of-way property. An internal county memorandum indicates that county officials considered the acquisition of the second parcel to be a financial investment.

Based upon discussions with our legal council, we are of the opinion that purchase of the larger parcel was in violation of state law.

Article 7, Section 1 of the *Constitution of the State of Washington* states in part:

All . . . taxes shall be levied and collected for public purposes only.

We have been advised that an expenditure of public funds must be primarily for a public purpose. There has been no showing that the county needed this property for a public purpose.

In addition, we have reviewed state investment statutes including RCW 36.29.020 which specifies the various financial instruments which represent appropriate investments of public funds. It appears that county officials were acting without legislative authority when they purchased real estate as an investment.

The county paid for this purchase out of its road funds. The use of the road funds is governed by RCW 36.82.070 which provides:

Any money paid to any county from the motor vehicle fund may be used for the construction, alteration, repair, improvement, or maintenance of county roads and bridges thereon and for wharves necessary for ferriage of motor vehicle traffic, and for ferries, and for the acquiring, operating, and maintaining of machinery, equipment, quarries, or pits for the extraction of materials, and for the cost of establishing county roads, acquiring rights of way therefor, and expenses for the operation of the county engineering office, and for any other proper county road purpose. Such expenditure may be made either independently or in conjunction with the state or any city, town, or tax district within the county.

The larger parcel of land was not necessary to any of the above specified purposes and thus county road funds should not have been used for the purchase.

We recommend that officials take steps to liquidate the county's investment in the excess real property and return the proceeds of the sale to the county's Road Fund. We also recommend that county officials limit future purchases of real property to those with a public purpose and utilize the Road Fund only for authorized purposes.

